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Preparatory Committee for the International Conference on Financing for Development
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Review of the inputs to the substantive preparatory process and the International Conference on Financing for Development

Letter dated 10 January 2002 from the Permanent Representative of India to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith the communiqué and its attachment adopted at the 64th meeting of the Development Committee (Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) held in Ottawa, Canada, on 18 November 2001 (see annex).

I should be grateful if you would have this letter and its annex circulated as a document of the Preparatory Committee for the International Conference on Financing for Development, under agenda item 2.

(*Signed*) Kamalesh **Sharma**
Ambassador
Permanent Representative

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Annex to the letter dated 10 January 2002 from the Permanent Representative of India to the United Nations addressed to the Secretary-General

[Original: English, French and Spanish]

Communiqué

1. The 64th meeting of the Development Committee was held in Ottawa, Canada, on November 18, 2001 under the chairmanship of Mr. Yashwant Sinha, Minister of Finance of India. Ministers expressed their great appreciation to the Canadian Government for facilitating the holding of this meeting under unusual circumstances.

2. **Impact of Recent Events in Low- and Middle-Income Countries: Response of the World Bank Group.** Ministers reviewed the impact of the September 11 terrorist attacks and their aftermath on developing countries. They recognized that poverty in many developing countries was likely to worsen as these events have deepened the pre-existing global economic slowdown, which had already led to weaker exports and commodity prices, and have other more specific impacts: e.g., increased refugee movements within countries and across borders; reduced private investment flows due to increased risk aversion in financial markets; reduced tourism revenues; and increased trade transaction costs. Ministers called for further enhancing the collaboration among the Bank Group, the IMF, the regional development banks and UN agencies, in their actions to help member countries address these additional challenges and to strengthen social safety nets. Ministers underlined the importance of renewed growth in industrialized countries to the improvement of prospects for poverty reduction in developing countries.

3. Ministers reviewed the response of the World Bank Group. They stressed the importance of the Group using its financial capacity and the flexibility in its available instruments to respond effectively and promptly to current circumstances and emerging needs. They emphasized that financial support should continue to be linked to strong country performance and reform programs in support of poverty reduction. Ministers agreed that, from a financial standpoint, the magnitude of likely incremental demands on the Bank Group currently appears manageable, but they urged that the Board and Management keep under close review the Bank Group's capacity to respond in more challenging circumstances. Ministers agreed that IDA had a particularly critical role in

helping the poorest countries manage the adverse impact of recent events on their economies and people, and emphasized that timely agreement on a substantial IDA 13 replenishment was essential. They encouraged all member governments to complete their subscription to MIGA's general capital increase.

4. Ministers considered improved governance to be an important element in generating the conditions for investment, private-sector-led growth, improved productivity, job creation, and trade, and, as a result, for poverty reduction. Thus, they highlighted the need for the Bank and the Fund, in accordance with their respective mandates and comparative advantage, to pay more attention to governance-related issues, including public expenditure management, diagnostic (e.g., through the Financial Sector Assessment Program) and capacity-building work to help countries identify and address abuses such as money laundering and terrorist financing. In light of this, they also stressed the importance of working to strengthen further country procurement and financial management systems. They also recognized the need to allocate increased resources to address capacity building concerns in many countries to help them meet new internationally agreed commitments and standards.

5. **United Nations Financing for Development Conference**. Ministers expressed appreciation to United Nations Secretary-General Kofi Annan for the opportunity to discuss with him, at the joint IMFC/Development Committee dinner on November 17, issues related to the March 2002 International Conference on Financing for Development (FfD). They expressed strong interest in contributing to the Conference's success, which they saw as an important milestone in the effort to halve the incidence of poverty by 2015 and to reach the other Millennium Development Goals (MDGs) (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000), and other agreed targets. They urged governments to involve all relevant ministries in preparing for the Conference to enhance coherence of policies with impact on development. (The Committee's views on Conference issues are attached.)

6. **Poverty Reduction Strategies**. Ministers welcomed the significant progress made in implementing the PRSP approach, noting that 38 countries had completed interim PRSPs and eight countries their first full PRSPs. They appreciated the extent to which poverty reduction strategies build on existing national strategies and processes, with a focus on broadening participation and sharpening poverty diagnosis and monitoring, as well as on prioritizing and policies and programs for poverty reduction. Ministers welcomed the Bank and Fund's efforts to work with countries to analyze the poverty and social impact of programs and to help them to build their own capacity. Ministers noted that the joint Bank/Fund staff review of the PRSP approach was underway. They called for a broad-based inclusive process that would draw upon the experience of other stakeholders and development partners, and looked forward to considering the report at their next meeting.

7. **HIPC.** Ministers welcome the continued progress made in implementing the HIPC Initiative, noting that twenty-four countries have now reached their decision points under the enhanced HIPC framework, qualifying for debt service relief amounting to some $36 billion; three countries have now reached their completion points and are receiving their full relief under the enhanced Initiative. There has also been a significant reduction in debt stock and debt service in these countries, and the commitment of qualifying HIPCs to increased poverty reduction spending has been encouraging. Ministers urged the Bank and the Fund to work with remaining eligible countries to bring them to their decision and completion points, as quickly as circumstances permit.

8. Ministers reiterated their commitment to the enhanced Initiative as a means for achieving a lasting exit from unsustainable debt for eligible countries. They stressed that long term debt sustainability will depend upon the maintenance of sound economic policies, strengthened debt management and the provision of appropriate financing. With regard to recent events, they noted that the enhanced HIPC initiative framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country's economic circumstances due to exceptional exogenous shocks. The Committee recognized the need to take into account worsening global growth prospects and declines in terms of trade, when updating HIPC initiative debt sustainability analysis at completion point. Ministers noted that the relevant operational procedures for exercising such an option were recently approved by the Bank and Fund Boards. Ministers also reiterated the importance of fully financing the enhanced HIPC Initiative and urged bilateral donors to fulfill this commitment. They welcomed the agreement among donors to continue their regular consultations on the financial requirements of HIPC. They also urged those creditors that had yet to confirm their participation in the Initiative to do so as soon as possible.

9. **Education for All (EFA)**. Ministers consider education as one of the most powerful instruments for reducing poverty and laying the basis for sustained growth. They welcomed the World Bank's background paper on this subject and noted the efforts of the Bank and its partners to help ensure that quality primary education is available to all children worldwide as a necessary first step towards strengthening overall education systems. Ministers looked forward to full consideration of this subject at their next meeting, based on an action plan that will address, inter alia, the policy and resource requirements needed to ensure that EFA goals are reached by 2015 through the development of sustainable and high quality EFA programs at the country level.

10. The Committee expressed its great appreciation to Mr. Yashwant Sinha for his valuable leadership and guidance to the Committee as its Chairman during the last fifteen months, and welcomed his successor, Mr. Trevor Manuel, Finance Minister of South Africa. The Ministers also expressed their warm thanks to Mr. Alexander Shakow upon his retirement as the Committee's Executive Secretary, and welcomed his successor, Mr. Thomas A. Bernes.

11. The Committee's next meeting is scheduled for April 22, 2002 in Washington, D.C.

Attachment (Financing for Development Conference)
Attachment to the Development Committee Communique
(64th Meeting – Ottawa, Canada, November 18, 2001)

FINANCING FOR DEVELOPMENT CONFERENCE (FfD)

1. Building Development Partnerships on a Foundation of Sound Policies and Good Governance. Ministers reaffirmed the critical importance of sound national policies and good governance as prerequisites for poverty reduction and sustained growth. They noted that the Millennium Development Goals (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000) and other internationally agreed development targets can help guide country-owned short- and medium-term national priorities on which external partnerships of support could be based. They noted that the Comprehensive Development Framework principles and Poverty Reduction Strategy Papers provide a vehicle for structuring partnerships with donors; they also provide a framework for the interventions of donors and other partners - such as through country assistance strategies and UN Development Assistance Frameworks - to ensure that external support is well integrated into national programs. An important contribution by the international community would be the strengthened provision of technical assistance to help developing countries - particularly low-income countries and those emerging from conflict - improve their capacity for sound economic management and efficient use of resources.

2. Strengthening the Conditions for Investment and Growth. Ministers stressed that, in addition to a stable and conducive international framework, a sound national policy environment, essential infrastructure and good governance are needed to allow the private sector to invest efficiently and create employment. They recognized that in many countries major reforms of the policy and regulatory framework will be required to encourage domestic investment and job creation. Such reforms can also help to promote foreign investment and contribute to productivity growth and the additional resources needed for sustainable development. Ministers underlined the need for coherent and comprehensive support to private sector development. They emphasized the important role that IFC, MIGA and other agencies working directly with the sector can play in this regard.

3. Promoting Integration into the International Trading System. Trade is an important source of growth and poverty reduction, and developing countries need to be able to take greater advantage of the opportunities it offers. In this connection, the Committee warmly welcomed the decision reached by the WTO last week in Doha to launch a new round of trade negotiations. They endorsed the WTO Ministerial

Declaration's aim to place the needs and interests of developing countries at the heart of their Work Programme. Ministers emphasized the importance of countries integrating trade into their development strategies and improving their investment regulations, standards and technical regulations, removing obstacles to efficient transport of goods and materials, and strengthening telecommunications and business services. Ministers noted that greater access to markets would provide a major boost to development. They also stressed the priority they attach to helping developing countries strengthen their capacity to respond to market opportunities and to implement trade-related agreements.

4. Importance of Enhancing ODA Flows. Ministers recognized that for most low-income countries the availability of Official Development Assistance (ODA) remains an essential supplement to domestic resource mobilization and foreign investment if growth and poverty reduction goals are to be achieved. Ministers agreed that special emphasis should be placed on ensuring that adequate resources are directed to countries implementing sound policies and exercising good governance. They recognized that a substantial increase in current ODA levels would be required if the opportunities emerging from policy improvements in low-income countries are to be realized and the MDGs to be met. In this context, a number of Ministers referred to the need to reach the 0.7 percent ODA/GNP target. It would also require that, among countries with sound policies and governance, ODA be allocated with greater emphasis on countries with the greatest need (in part based on the difficulties they face in the achievement of their MDGs) and with capacity to make the most effective and efficient use of the resources. Ministers also emphasized the importance of appropriate concessionality in ODA flows.

5. Harmonization - Reducing the Transaction Costs of Aid. Ministers noted that major improvements in development effectiveness and efficiency, as well as reduced administrative burdens and costs on recipient governments, would be gained from eliminating rigidities in aid delivery mechanisms. In this regard, they highlighted the critical importance of harmonization of operational policies and procedures by the Bank, other multilateral agencies and bilateral aid donors. Ministers welcomed the World Bank's report on progress achieved to date in this area and commended the action programs set forth in this report. The Committee urged that the Bank and its partners continue vigorously to pursue these programs, and that the FfD Conference be encouraged to recognize the importance of, and provide broad-based support for, further progress in such harmonization and its implementation at the country level.

6. Debt and Other Instruments. Ministers underscored the need to deploy a flexible mix of instruments so as to respond appropriately to the needs of developing countries in a consistent with their economic circumstances and public expenditure management capacities. While urging that the HIPC Initiative continue to be implemented expeditiously to achieve debt sustainability for the poorest countries, they noted that debt relief is only one of many possible actions and instruments to support country poverty reduction strategies.

7. Global Public Goods. Ministers noted that FfD provides an opportunity for enhancing a common approach to global public goods and accelerating progress on the coordination of global public goods areas, such as those addressing HIV/AIDS and other major infectious diseases. They agreed on the importance of focusing on specific priority activities, while consolidating initiatives to achieve efficient use of resources. They stressed the need to ensure that activities are anchored in national as well as global strategies. In some cases this would require ensuring additionality in funding, while in others flexibility and reinforcement of existing mechanisms would be needed to help countries own and implement global public goods-related national programs.

8. Making the Most of Existing Institutions. Ministers noted that FfD offers an opportunity to establish a broad consensus - among governments, institutions, the private sector, and civil society - for action on the basis of common objectives and for the identification of specific gaps that may require enhanced international action. This would provide a platform for individual institutions to use their respective mandates, governance structures and strengths to undertake high priority initiatives as well as to promote more focused and coherent action among bilateral and multilateral agencies. Ministers strongly believe in making the most of existing institutions.

9. Integration into the Global System. Ministers agreed on the importance of promoting the greater integration of developing countries into the global financial system. They noted that progress is being achieved through the efforts of, inter alia, international financial institutions, including in areas of crisis prevention, standards and codes, legal and regulatory frameworks, transparency, financial sector strengthening, combating terrorist financing and other abuses, debt management, and private sector participation in the resolution of financial crises. Ministers also agreed that it is important to find pragmatic and innovative ways to continue to enhance the effective participation of developing countries in international dialogues and decision-making processes.

10. Staying Engaged. Ministers noted that the FfD Conference should be seen as part of ongoing efforts to intensify concerted international action for development and poverty reduction, to expand growth opportunities for developing countries, and to improve the effectiveness and responsiveness of development cooperation. They urged that the follow-up to the Conference be seen in this context. They believe that the dialogue among the ECOSOC and the Bretton Woods Institutions offers unrealized potential, as does further progress within the framework of the coordinating committee of the heads of United Nations agencies (ACC). Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective responsibilities and governance structures. For example, a combined effort by the Bretton Woods institutions and the

United Nations, along with the OECD, to check periodically on progress towards the MDGs, would provide an efficient and practical approach for improved cooperation.

11. Ministers requested their Chairman to convey these conclusions to the President of the United Nations General Assembly.